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ABENGOA SOLAR

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12/10/2008

AZ CORP COMMISSION
DOCKET CONTROL

Chairman Mike Gleason
Commissioner William A. Mundell
Commissioner Jeff Hatch-Miller
Commissioner Kristin K. Mayes
Commissioner Gary Pierce
Arizona Corporation Commission

Arizona Corporation Commission

DOCKETED

Re: Arizona Public Service Company Interim Rate Recovery Request;
Docket # E-01345A-08-0172

DEC 12 2008

DOCKETED BY

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Dear Chairman Gleason and Commissioners:

First, let me thank you for your support for Solana, as witnessed by the Commission's approval of the PPA between Abengoa Solar and APS and your affirmation of the Arizona Power Plant and Transmission Line Siting Committee's recommended approval of Solana's Certificate of Environmental Compatibility. Your support for solar energy in general and concentrating solar power (CSP) specifically is noteworthy and will most certainly benefit the state of Arizona and provide a noteworthy Commission legacy long after your term is over.

It has come to the attention of Abengoa Solar that APS' interim rate request may be denied. I am writing to offer Abengoa Solar's perspective on the impact that denial would have on the Solana project, and on the economy of Arizona. I would like to state at the outset that Abengoa Solar respects the authority and responsibility of the Commission to approve or deny rate increases on their merits and that Abengoa Solar is not challenging that process or decision, but is only addressing the likely impact of an adverse decision on Solana.

Abengoa S.A., Abengoa Solar, and its U.S. subsidiary Abengoa Solar Inc., have been financing, building, owning and operating, or selling, power plants around the world for over 70 years. Abengoa's in-house Engineering, Procurement, and Construction (EPC) contractor, Abener, is ranked second, just after Bechtel, in power plant construction worldwide. Abengoa typically raises between 2 and 3 billion dollars in project finance annually. We therefore can state, without reservation, that the situation for project finance has changed dramatically in the past several months. Furthermore, we believe that this situation is extremely relevant when considering the impact of an adverse rate recovery decision on APS' ability to acquire new generation resources of any type.

Abengoa has negotiated with utilities around the world and our impression of APS, formed over many months of intense negotiations on the Solana PPA, is that of a very well-managed company at all levels, from senior management to procurement, legal, and operations. In our view, these managers are diligently concerned with providing the best value to customers by keeping costs down. Regarding the relatively new field of solar

power, APS is one of the most knowledgeable companies we have worked with, a testimony to its management who believes that being well-informed ensures the best deal for the company and its customers. In our opinion, APS deserves to be at the top of the credit-worthiness list of rated utilities. Instead, it is now, essentially, at the bottom.

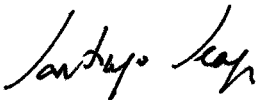
Financing any large project today is challenging, especially so for a large (billion dollar) and relatively new CSP project. When the banks lend again, they will be more risk-adverse and far more selective in the projects that they will finance. In utility projects, not only do banks look carefully and deeply into the financial strength of the developer but they apply the same attention to the off-taker. Based on discussions with the financial advisor for Solana, the Bank of America, we believe that it will be very difficult to finance Solana if APS were to lose its investment grade credit rating from any of the rating agencies. The provisions in the PPA that the Commission recently approved were designed to deal with a possible downgrade during "normal" conditions in the financial markets but those conditions no longer apply.

There is another dimension to this issue and that is the overall interests of the citizens of Arizona, a significant number of whom are customers of APS. Solana, when built, will be the largest solar power plant in the world. Solana will significantly expand the use of the state's solar resources for the economic and environmental benefit of its citizens. Building Solana will bring over a billion dollars of investment into the state's economy, will create almost two thousand construction jobs and almost a hundred permanent jobs, will attract manufacturing, and will increase the state's tax income. Building Solana will reduce the state's greenhouse gas emissions and position Arizona to use a greater amount of its solar energy resource for future energy production, as well as for export to neighboring states. Solar energy is poised to become a new engine for the state's economy. Solana will, if built, be the first of many new solar power plants that will bring these multiple benefits to the citizens of Arizona.

Consequently, there seems to be a disconnect between the considerations in this rate case and the economic well being of Arizona. The two are clearly linked, yet it appears that only the narrow issue of near-term utility rates is being considered. The needs of Arizona citizens are ill-served if the decision of the ACC on this rate case results in the weakening of the financial health of APS and forces upon it a credit downgrade which would have far greater adverse impacts on the rate payers and citizens of Arizona.

I thank you for your consideration of Abengoa Solar's request that you carefully consider APS' interim rate request that is before you.

Sincerely,

A handwritten signature in black ink, appearing to read "Santiago Seage".

Santiago Seage, CEO
Abengoa Solar



December 9, 2008

Arizona Corporation Commission
Commissioners Wing
1200 W. Washington, 2nd Floor
Phoenix, AZ 85007

E-D1345A-08-0172

Dear Commissioners:

On behalf of the Board of Directors of the Downtown Phoenix Partnership, I am writing to express our concern about the future health and stability of Arizona Public Service. APS is a critical component of the economic future of downtown Phoenix and of the entire state of Arizona, and it is imperative that they have the resources necessary to not only provide for current electrical needs, but also that of future needs. Downtown Phoenix is undergoing a tremendous renaissance, with over \$4 billion in new investment underway. But if we do not have the ability to provide reliable sources of power, further future growth will be severely curtailed.

Given the current economic health of the nation, we all are painfully aware of how difficult it has become for many businesses to secure the capital they need for current operations and future expansion. We were very dismayed to learn that APS has the third lowest credit rating of all of the public utilities in the country, and it may soon be downgraded to junk bond status. One of the reasons for this appears to be concern by the rating agencies that the Commission is not supportive of allowing APS to adequately recover its reasonable costs. While we all appreciate the Commission's concern for insuring that Arizona consumers are protected against unnecessary or unfounded rate increases, it is also important to balance that against the future health of such a critical component of our economy.

The Board of Directors of the Partnership met on December 8th, and unanimously approved a resolution asking that the Arizona Corporation Commission move forward as expeditiously as possible on this rate request. While none of us wants to pay more for energy costs, the alternative of having a failed utility and no ability to meet future needs is even more disheartening.

Sincerely,

A handwritten signature in black ink, appearing to read 'DR', followed by a long, sweeping horizontal line.

David Roderique
President and CEO

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